

This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SANAA 001589

SIPDIS

E.O. 12958: DECL: 06/30/2013

TAGS: [EPET](#) [ECON](#) [YM](#) [ENERGY](#) [ECON](#) [COM](#)

SUBJECT: RUMORED OIL FIND NOT ENOUGH TO SUSTAIN ROYG ECONOMY

Classified By: Classified by Ambassador E.J. Hull for reasons 1.5. (B.) and (D).

1. (C) Summary: Rumors are circulating in Sanaa that an oil discovery by Canadian Nexen could contain over a billion barrels of oil. Earlier, Ministry of Oil officials expressed optimism that new oil finds in Yemen could maintain current production levels indefinitely, in spite of their own Ministry's predictions that oil output could decline as much as one third by 2010. Nevertheless, even with Yemen's oil production at an all time high and last year's inflated oil prices, the economy for 2002 did not expand as fast as population growth. End Summary.

Rumors of Big Oil Find

2. (C) AbdulGhani Al-Iryani, Chairman of Rayman Trading Company and member of the prominent al-Iryani family in Yemen, told Pol/econoff on June 25th that there were several rumors that Canadian Nexen has discovered a huge oil field, perhaps in the billions of barrels of oil. Al-Iryani cited as evidence two news stories on Al-Jazeera and in the daily newspaper Al-Ayyam announcing new finds in Canadian Nexen's Block 14 in the Hadramawt governorate. (Note: According to the Petroleum Exploration and Production Authority, Yemen's proven oil reserves are just over 4 billion barrels. End Note.) Canadian Nexen officials are reluctant to comment on the find, but have confirmed to Embassy officials that there have been new discoveries.

Ministry of Oil and Minerals Sanguine about Future

4. (U) In an earlier courtesy call with Nabil al-Gawsi on June 10, Chairman of the Petroleum Exploration and Production Authority (PEPA) of the Ministry of Oil and Minerals, al-Gawsi expressed optimism that present high production rates of 450,000 barrels a day could be maintained, possibly slipping slightly to 400,000 barrels per day in the future. When asked to respond to most experts' prediction that oil production will decline significantly in the next ten years, Al-Gawsi countered that he believed there was still a great deal of oil to be found. He confirmed that Canadian Nexen had found oil in concession area 14, near in Hadramawt. Al-Gawsi did not comment on the size of the discovery. (Note: The Ministry of Oil has publicly estimated in 2001 that by 2010 production would drop to 1/3 of today's levels, around 145,000 barrels a day. End Note.) Al-Gawsi also promoted recently opened oil concessions along the border with Saudi Arabia, which have recently opened for exploration after the conclusion of the 2000 border agreement with Saudi Arabia.

5. (U) Expressing some frustration with Hunt Oil, al-Gawsi said that there was likely more oil in Hunt's concession near Marib than Hunt would extract. The concession might be opened to other companies if Hunt leaves after their PSA expires in 2005. Closing by promising a bright future for oil in Yemen, al-Gawsi said only 3% of all the oil concessions have been explored, and was positive there were still more reserves to be discovered.

New Finds Aside,
Oil Not the Solution to Yemen's Economic Woes

5. (C) Comment: The rumored oil find explains the optimism of al-Gawsi and his coworkers at PEPA and will likely delay the ROYG's having to compensate for revenue losses due to diminished oil production. The rumored size of the find is undoubtedly exaggerated. Most likely, al-Gawsi is more on target with his expectation that new finds will maintain current oil production levels. While new oil finds are good news for government revenue, oil is not a panacea for the ROYG economy. Last year's high oil prices and record oil production levels only accounted for 2.9% GDP growth (World Bank Statistic) for Yemen in 2002, which did not match the ROYG's published population growth estimate of 3.5%. Keeping in mind that oil prices are expected to fall next year, simply maintaining current production levels will translate into even slower GDP growth, and most likely a budget deficit for the ROYG in 2004. End Comment.

HULL